

WATER/SNR/RSK:jrb

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4459

February 11, 2004

R E S O L U T I O N

**(RES. W-4459), SERENO DEL MAR WATER COMPANY (SDM).
ORDER AUTHORIZING A GENERAL RATE INCREASE
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$1,633 OR
2.17%, IN 2003.**

SUMMARY

By Draft Advice Letter, filed on March 24, 2003, SDM seeks an increase in its rates for water service to recover increased expenses of operation and earn an adequate return on its plant investment. For Test Year 2003, this resolution grants an increase in gross annual revenues of \$1,633 or 2.17%, which is estimated to provide an operating ratio return of 20%.

BACKGROUND

SDM is a solely owned subsidiary of Russian River Utilities (RRU) and it serves 118 metered rate residential customers adjacent to Highway 1, approximately 3 ½ miles north of Bodega Bay in Sonoma County.

SDM has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by 19.7%, or \$13,780, for Test Year 2003. The purpose of the rate increase is to recover increased operating expenses and to provide an adequate rate of return. SDM's request shows gross revenues of \$70,100 at present rates increasing by 19.7% (apx. \$13,780) to \$83,880 at proposed rates. SDM is requesting an operating ratio return of 22%.

SDM's current rates became effective on May 13, 2003, pursuant to Advice Letter No. 33, which authorized a Consumer Price Index (CPI-U) adjustment for 2002.

The last general rate increase became effective on July 20, 2000, pursuant to Resolution W-4211, which authorized a rate increase of \$15,251, or 37.37%, resulting in a rate of margin of 15%.

DISCUSSION

The Water Division (Division) made an independent analysis of SDM's summary of earnings and issued its report in December 2003. Appendix A shows SDM's and the Division's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences in SDM's and the Division's estimates in operating revenues, expenses, and rate base. SDM was informed of the Division's differing views of revenues, expenses and rate base and agrees with the Division's findings.

The major differences in expenses were in the (1) Office Supplies and Expenses, (2) Professional Services, and (3) Insurance accounts. The Division's estimates were made using actual billing and past recorded expenses. The Division audited actual bills for insurance and office expenses to make its estimates, and relied on past recorded amounts and projected billings for professional services.

In its review, the Division found that SDM is incorrectly charging water-testing expenses to the contract work account, instead of to the water testing sub-account under the contract work account.

In D.92-03-093, effective April 30, 1992, the CPUC adopted the operating ratio method of ratemaking as an alternative to the rate of return method for Class C and Class D utilities. Thus, two methods are available for Staff to utilize in the ratemaking process: Return on Rate Base (net investment) and Operating Ratio. Staff is required to calculate the revenue requirement utilizing both the rate of return method and the operating ratio method. Policy dictates that Staff will recommend the method that produces the higher revenues. Comparison of the revenue requirement using both methods indicates that the return on rate base method produces a higher revenue requirement because of SDM's relatively small rate base. In keeping with policy, staff used the operating ratio method for determining the revenue requirement.

SDM's draft advice letter requested rates that would produce an operating ratio return of 22%. The summary of earnings in Appendix A shows an operating ratio return of 20% at adopted rates. This operating ratio return is the high point

of the return range for Class D water utilities to reflect a well-run operation with excellent customer service.

There are no outstanding Commission orders requiring system improvements. The utility has been filing annual reports as required. According to the Department of Health Services, the utility currently meets all applicable water quality standards.

Decision 92-03-093 allows Class D utilities to recover up to 100% of fixed costs in their readiness to serve charge. The rates shown in the service charge rates shown in Appendix B recover 100% of the utility's fixed cost. SDM's current rate structure consists of three schedules: Schedule No. 1, Metered Service, Schedule No. 3, Construction Service, and Schedule No. 5, Public Fire Hydrant Service. Water utilities can no longer charge any fire protection entity for fire hydrant service except pursuant to a written agreement with such entity providing fire protection services. No such agreement exists between SDM and the local fire jurisdiction. Therefore, Schedule No. 5, Public Fire Hydrant Service should be cancelled.

The new rate schedules can be found in Appendix B. A bill comparison can be found in Appendix C. At the Division's recommended rates shown in Appendix B, the bill for a typical residential customer with a $\frac{3}{4}$ inch meter using 368 cubic feet of water will increase from \$46.19 to \$47.10 per month. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

NOTICE AND PUBLIC MEETING

A notice of the proposed rate increase was mailed to each customer on July 17, 2003. The Division received one letter protesting the magnitude of the rate increase and has responded to the customer. The Division has not received any complaints in last twelve months.

A public meeting was held on August 13, 2003 at the Bodega Bay Community Center in Bodega Bay. The Commission representative explained the rate setting procedures and the SDM representatives explained the reasons for the proposed increase and system improvements. Several customers were present and they were generally satisfied with the service and system improvements.

FINDINGS

1. The Staff's recommended Summary of Earnings (Appendix A) is reasonable and should be adopted.
2. The rates recommended by the Staff (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Staff's recommendations are reasonable and should be adopted.
4. The rate increase proposed by the Staff is justified. The resulting rates are just and reasonable.
5. SDM's Schedule No. 5, Public Fire Hydrant Service is no longer applicable, and its Rule 5, Special Information Required on Forms; Rule 10, Disputed Bills, as well as Form No. 3, Bill for Service, are out of date.
6. SDM is incorrectly charging water-testing expenses to the contract work account, instead of to the water testing sub-account under the contract work account.
7. This is an uncontested matter subject to the public notice comment exclusion provided in the PU Code Section 311(g)(3).

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Sereno Del Mar Water Company to file an advice letter incorporating the summary of earnings and the revised rate schedules attached to this resolution as Appendices A and B, and concurrently cancel its presently effective rate Schedule No. 1, Metered Service, and Schedule No. 3, Construction Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Sereno Del Mar Water Company is authorized to increase its annual revenues by \$1,633 or 2.17%, based on reasonable rates for 2003.
3. Sereno Del Mar Water Company shall delete Schedule No. 5, Public Fire Hydrant Service, and shall update Rule 5, Special Information Required on

Forms; Rule 10, Disputed Bills, and Form No. 3, Bill for Service.

4. Sereno Del Mar Water Company shall charge water-testing expenses to the water testing sub-account under contract work.
5. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on February 11, 2004; the following Commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director

MICHAEL R. PEEVEY
President
CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners

APPENDIX A
Sereno Del Mar Water Company
Summary Of Earnings
Test Year 2003

	Sereno Present Rates	Sereno Requested Rates	Staff Present Rates	Staff Requested Rates	Adopted Rates
Operating Revenues					
Service Charge Revenue	\$52,458	\$62,556	\$53,805	\$58,836	\$55,236
Quantity Charge Revenue	\$11,342	\$15,024	\$15,087	\$16,050	\$15,536
Other Revenue	\$6,300	\$6,300	\$6,300	\$6,300	\$6,053
Total Revenue	\$70,100	\$83,880	\$75,192	\$81,186	\$76,825
Operating Expenses					
610 Purchased Water	\$600	\$600	\$600	\$600	\$600
615 Purchased Power	\$6,000	\$6,000	\$6,220	\$6,220	\$6,220
618 Other Volume Related Expenses	\$0	\$0	\$200	\$200	\$200
630 Employee Labor	\$0	\$0	\$0	\$0	\$0
640 Materials	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
650 Contract Work	\$24,000	\$24,000	\$26,073	\$26,073	\$26,073
Laboratory Services (Water testing)	\$5,500	\$5,500	\$5,931	\$5,931	\$5,931
660 Transportation Expenses	\$0	\$0	\$0	\$0	\$0
664 Other Plant Maintenance	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000
670 Office Salaries	\$0	\$0	\$0	\$0	\$0
671 Management Salaries	\$0	\$0	\$0	\$0	\$0
674 Employee Pensions and Benefits	\$0	\$0	\$0	\$0	\$0
676 Uncollectable Accounts	\$0	\$0	\$0	\$0	\$0
678 Office Services and Rentals	\$1,560	\$1,560	\$1,575	\$1,575	\$1,575
681 Office Supplies and Expenses	\$5,160	\$5,160	\$1,440	\$1,440	\$1,440
682 Professional Services	\$8,160	\$8,160	\$5,000	\$5,000	\$5,000
684 Insurance	\$2,500	\$2,500	\$3,388	\$3,388	\$3,388
688 Regulatory Commission Expense	\$1,800	\$1,800	\$0	\$0	\$0
689 General Expense	\$200	\$200	\$200	\$200	\$200
Subtotal	\$58,480	\$58,480	\$53,627	\$53,627	\$53,627
403 Depreciation	\$3,295	\$3,295	\$3,295	\$3,295	\$3,295
408 Taxes Other Than Income	\$6,987	\$6,987	\$5,208	\$5,208	\$5,208
409 State Income Taxes	\$800	\$800	\$1,155	\$1,685	\$1,299
410 Federal Income Taxes	\$0	\$1,000	\$1,786	\$2,606	\$2,009
Total Deductions	\$69,562	\$70,562	\$65,070	\$66,420	\$65,438
Net Revenue/Operating Margin	\$538	\$9,266	\$10,121	\$14,766	\$11,387
Rate Base					
Average Plant	\$131,790	\$131,790	\$131,790	\$131,790	\$131,790
Average Dep. Reserve	\$95,289	\$95,289	\$95,289	\$95,289	\$95,289
Net Plant	\$36,501	\$36,501	\$36,501	\$36,501	\$36,501
Less: Contributions	\$0	\$0	\$0	\$0	\$0
Advances	\$0	\$0	\$0	\$0	\$0
Plus: Working Cash	\$0	\$0	\$0	\$0	\$0
Mat'l & Supplies	\$0	\$0	\$0	\$0	\$0
Total Rate Base	\$36,501	\$36,501	\$36,501	\$36,501	\$36,501
Value for Operating Margin Calculation (Operating Expenses plus Depreciation)					\$56,922
Operating Ratio	1%	22%	18%	26%	20%

APPENDIX B
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Sereno Del Mar Water Company

Schedule No. 1

METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

The subdivision known as Sereno Del Mar and vicinity located 3.5 miles north of Bodega Bay, Sonoma County.

RATES

Quantity Rates:	Per Meter
	<u>Per Month</u>
All water, per 100 cu. ft.	\$ 2.904 (I)
Service Charge:	Per Meter
	<u>Per Month</u>
For 5/8 x 3/4-inch meter	\$ 36.40 (I)
For 3/4-inch meter	\$ 36.40 (I)
For 1-inch meter	\$ 60.70 (I)
For 1-1/2-inch meter	\$121.50 (I)

The Service Charge is a readiness-to-serve charge, which is applicable to all metered service and to which is added the water used computed at the Quantity Rate.

SPECIAL CONDITIONS

1. Any customer prior to resuming service within 12 months after such service was discontinued will be required to pay all service charges, which would have been billed if service had not been discontinued.

(D)
2. A surcharge of \$6.75 in addition to the regular monthly service charge shall be charged to all metered service. The surcharge is specifically for the repayment of the Safe Drinking State Revolving Fund loan as approved by Resolution W-4234. The monthly surcharge rate is subject to periodic adjustment.
3. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

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Sereno Del Mar Water Company

Schedule No. 3

CONSTRUCTION SERVICE

APPLICABILITY

Applicable to all water service furnished for construction purposes. Service furnished as temporary service under Tariff Rule No. 13. Applicant has to pay costs of installation and removal.

TERRITORY

The subdivision known as Sereno Del Mar and vicinity located 3.5 miles north of Bodega Bay, Sonoma County.

RATES

Quantity Rates:	<u>Per Meter</u> <u>Per Month</u>
For all water, per 100 cu. ft.	\$ 1.14 (I)
Minimum Charge:	
For 1-1/2 inch meter	\$ 75.01 (I)

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.

SPECIAL CONDITIONS

1. Construction water service under this schedule will be furnished only when surplus water is available over the requirement for domestic service and under conditions, which will not adversely affect domestic service. The utility will be the sole judge as to the availability of such surplus water.
2. Applicants for metered construction service will be required to apply for the service at least 48 hours in advance of the time delivery of water is requested and to pay the costs and charges as provided by Rule No. 13, Temporary Service.

APPENDIX C

Sereno del Mar Water Company

Bill Comparison

Monthly Bill Comparison for a customer with a $\frac{3}{4}$ -inch metered service

Usage - ccf	Present Rates	Recommended Rates	Amount Increase	Percent Increase
0	\$35.49	\$36.40	\$0.91	2.6%
3.68 avg	\$46.19	\$47.10	\$0.91	2.0%
10	\$64.53	\$65.44	\$0.91	1.4%

Appendix D

Sereno Del Mar Water Company

Adopted Quantities Test Year 2003

Purchased Power

Pacific Gas and Electric Company

Effective Date April 1, 2003

Schedule A-6 P Small General Time-of-Use Service - Polyphase

Energy Charge (per kWh per Summer (5/1 – 10/31) month)

Peak \$0.34322

Part-Peak \$0.15839

Off-Peak \$0.10169

Energy Charge (per kWh per Winter month)

Part-Peak \$0.17113

Off-Peak \$0.11720

Meter Charge, per meter per day

Rate A6 \$0.22341

Customer Charge, per meter per day

Polyphase Service \$0.39425

Water Production 91,500 Ccf

Total KWH 45,372 kWh

KWH/CCF 2.01

Unit Cost (\$/KWH) \$0.1371

Total Purchased Power Cost \$6,220

Property Taxes \$5,208

Service Connections

¾ - inch 113

1 - inch 8

Consumption 5,350 Ccf

Tax Calculations

Operating Revenues \$ 76,825

Expenses \$ 53,627

Depreciation \$ 3,295

Taxes other than Income \$ 5,208

Taxable Income for State \$ 14,696

State tax \$ 1,299

Taxable Income for Federal \$ 13,396

Federal tax \$ 2,009

Resolution W-4459
SDM/DRAFT AL/SNR/RSK:jrb

February 11, 2004